



Governance & Budgets



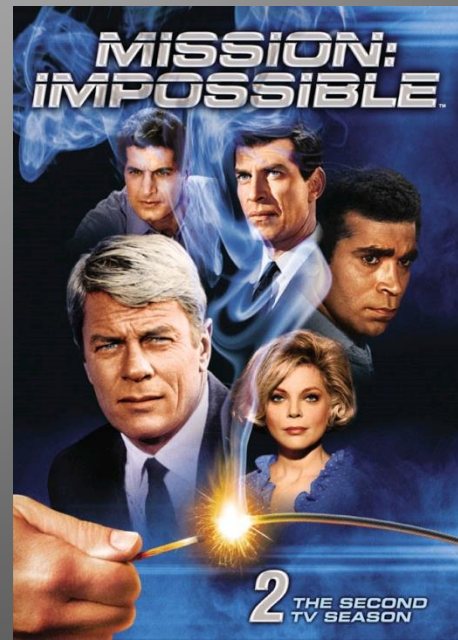
Daniel J.B. Mitchell
Professor-Emeritus, UCLA
Ziman Center
May 3, 2011



My Mission, Should I Choose to Accept It

(based on various conversations with
the program organizers)

- Give an overview of problems of the budget & governance
- But don't get too detailed or overlap with other speakers
- Provide some suggested remedies
- And be sure to say something about Proposition 13
- Do it all in 15 minutes

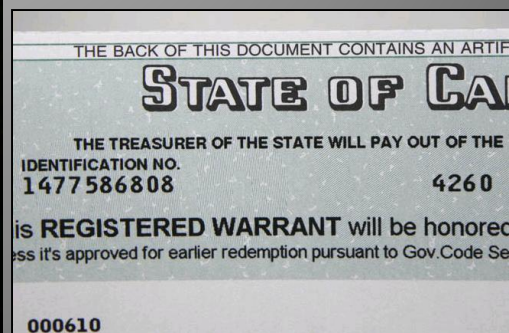




Governance

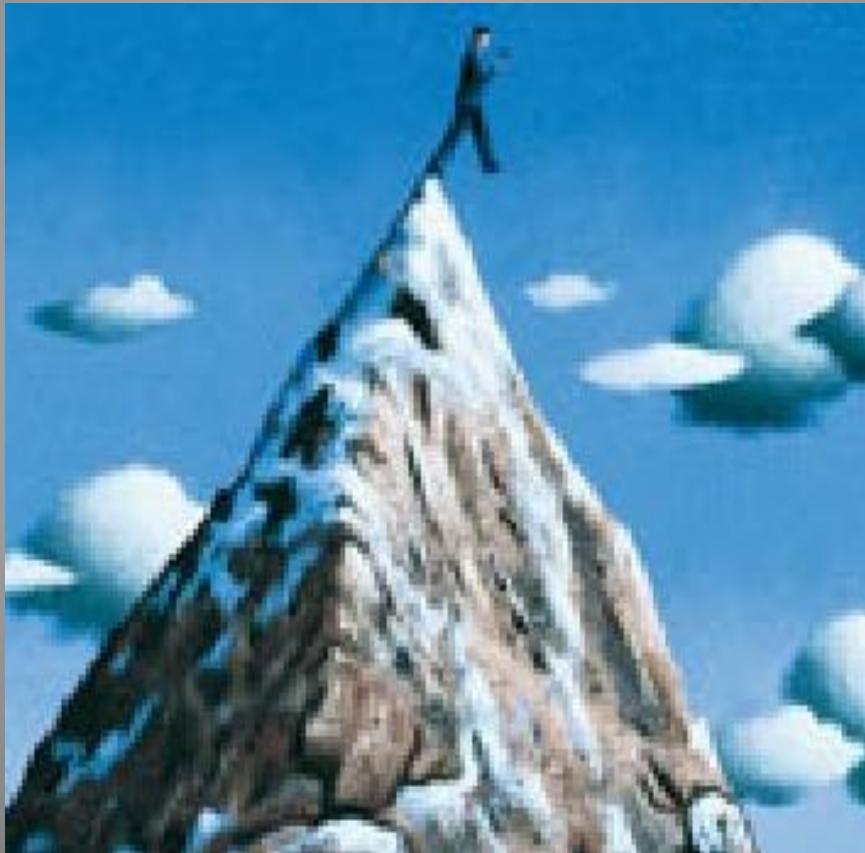


Choose your metaphor



Budget Problems

When you are at the peak, you can't fall up



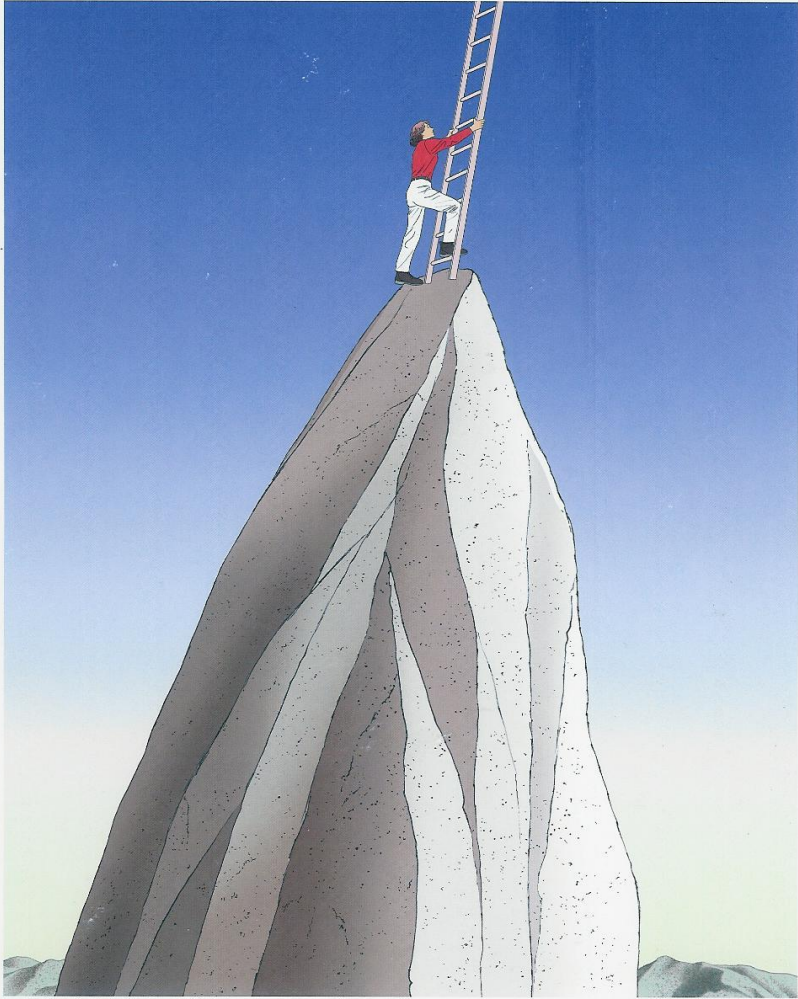
Budget Problems

**When you are at the peak, you
can't fall up *except at Anderson***

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AN EXCEPTIONAL PROGRAM FOR
REMARKABLE PEOPLE



The illustration depicts a person in a red shirt and white pants standing on a narrow, steep mountain peak. They are holding onto a long wooden ladder that extends from the peak up into a clear blue sky. The mountain is rendered with dark, textured lines, suggesting a rugged, rocky surface. The overall scene conveys a sense of achievement and reaching the summit.

Budget Problems

L.A. UNLEASHED

ALL THINGS ANIMAL IN SOUTHERN CALIFORNIA AND BEYOND

Stone-throwing Santino the chimp shows apes can carry out plans

7:35 PM, March 9, 2009



A chimpanzee named Santino has shown researchers that the great apes can plan ahead and execute carefully plotted maneuvers. Santino, the alpha male chimp at Sweden's Furuvik Zoo, planned rock-throwing attacks against zoo visitors, which shocked zoo staff and fascinated scientists.

Budget Problems

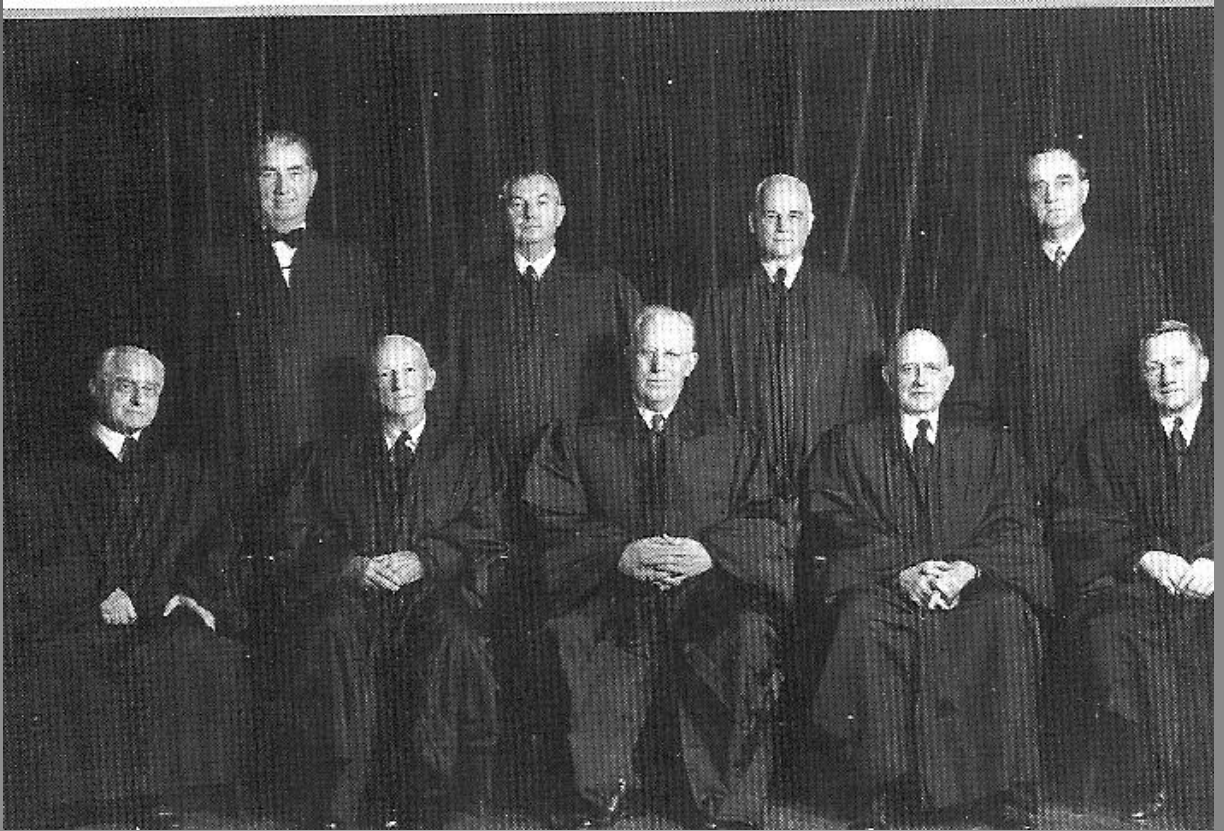
***What do you see in this
picture of downtown LA
from 1946?***



Governance



California Governor



The U.S. Supreme Court in 1953

Collier-Burns Act (1947)

- **Proposal: Put gas and other motor-vehicle related taxes into trust fund to avoid tax “diversion”**
- **Raise gas and related taxes to build freeways and other roads**





Universal Health Care

- State health insurance Plan
- Employer pay or pay
- Opposed by California Medical Assn. (doctors)
- Failed to pass

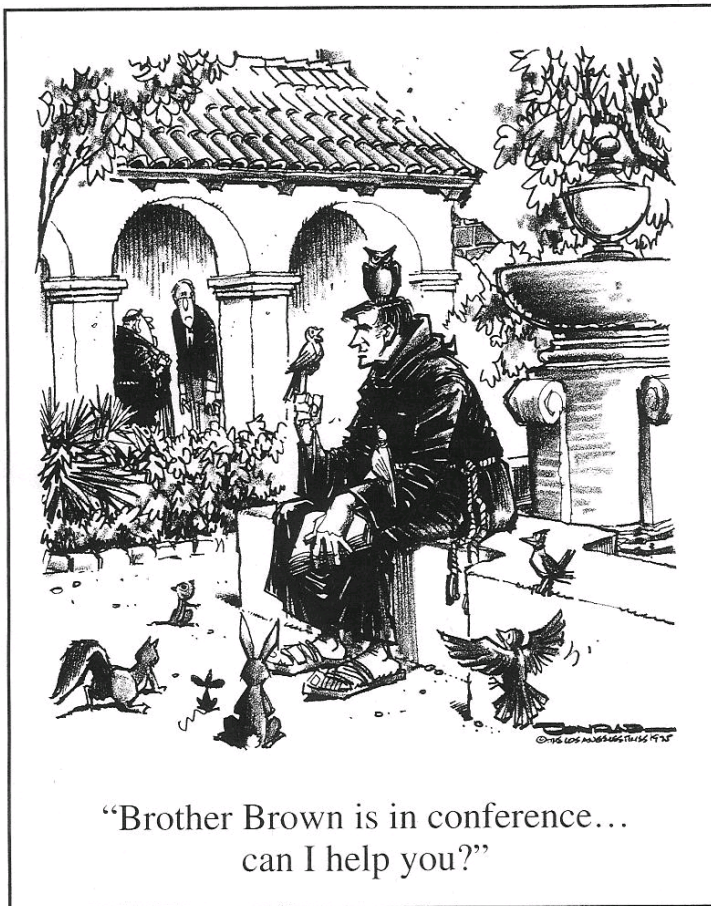




Moral

- Popular governor
- Landslide re-election
- More centrists in legislature than today
- Fewer institutional barriers than today
- Win one out of two





Prop 13 of 1978

- Drastic cut in local property tax made locals dependent on Sacramento
- 2/3 vote on taxes
- Lost federal tax deduction sends CA funds to Washington
- Impetus for rent controls
- Fiscalization of land use
- Current pressure for some version of “split roll.” (Higher tax on commercial property.)





“Brother Brown is in conference...
can I help you?”



The Usual Suspects



The Usual Suspects



2/3 vote for budget (*now abolished*)

2/3 vote for taxes

Proposition 13

Voter-mandated spending formulas, programs, bond issues

Voter-imposed term limits

Volatile revenue stream

Gerrymandered districts (*now being addressed by new commission*)

Party polarization (*potentially now ameliorated by nonpartisan primary*)

Direct Democracy

Direct Democracy

The
Economist

APRIL 23RD-29TH 2011

Economist.com

Crunch time in Libya

A backlash against the Chinese in Africa

Lessons from BP's oil spill

Singapore as a financial hub

The science of religion

Where it all went wrong

A SPECIAL REPORT



The even
The UCLA
the UCLA

As Kluth of The Economist
UCLA Roundtable Discussion
6, 2011, 6:15-8:00 p.m.
Corn Hall

UCLA The Economist

Andreas Kluth of *The Economist* Leads UCLA Roundtable

Theme: After Prop 13 of 1978, direct democracy went wild, making the legislature dysfunctional and impotent. That's why budget deals can't be reached.

Remedy: Put some constraints on direct democracy thereby strengthening the legislature.

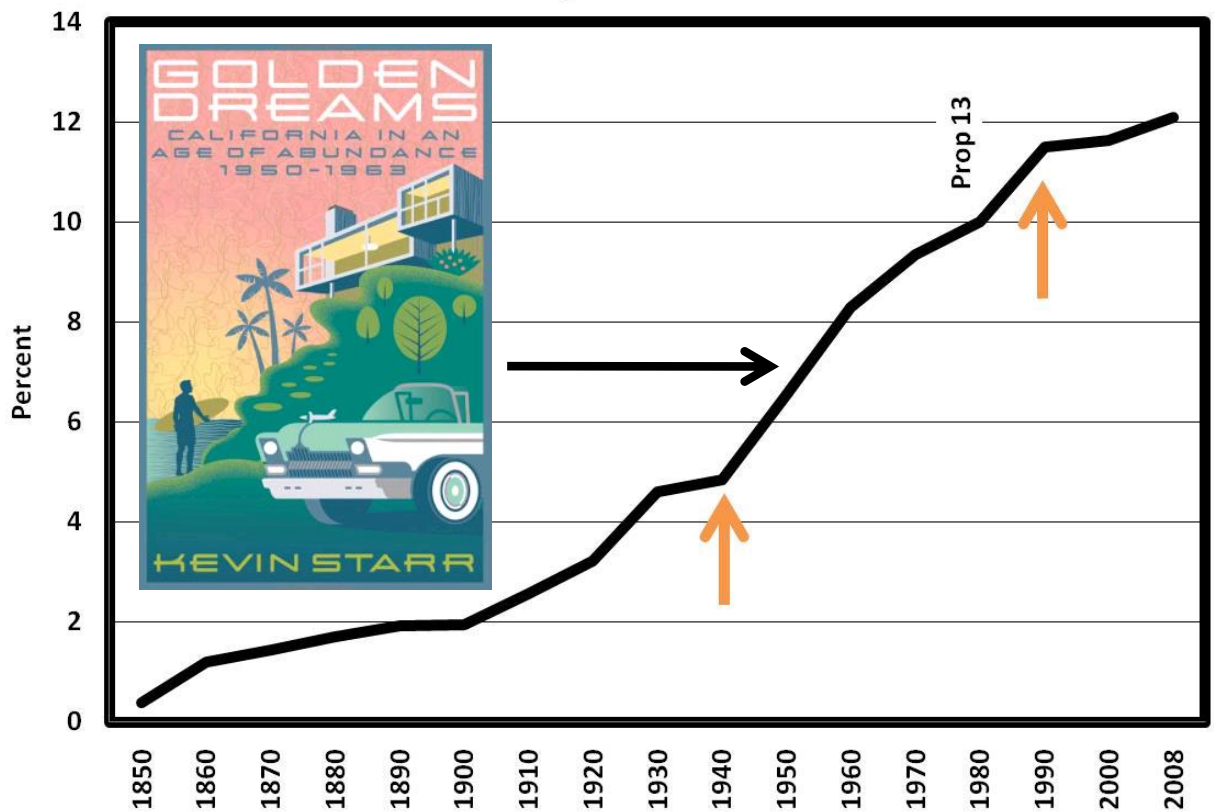
When was California's original sin?



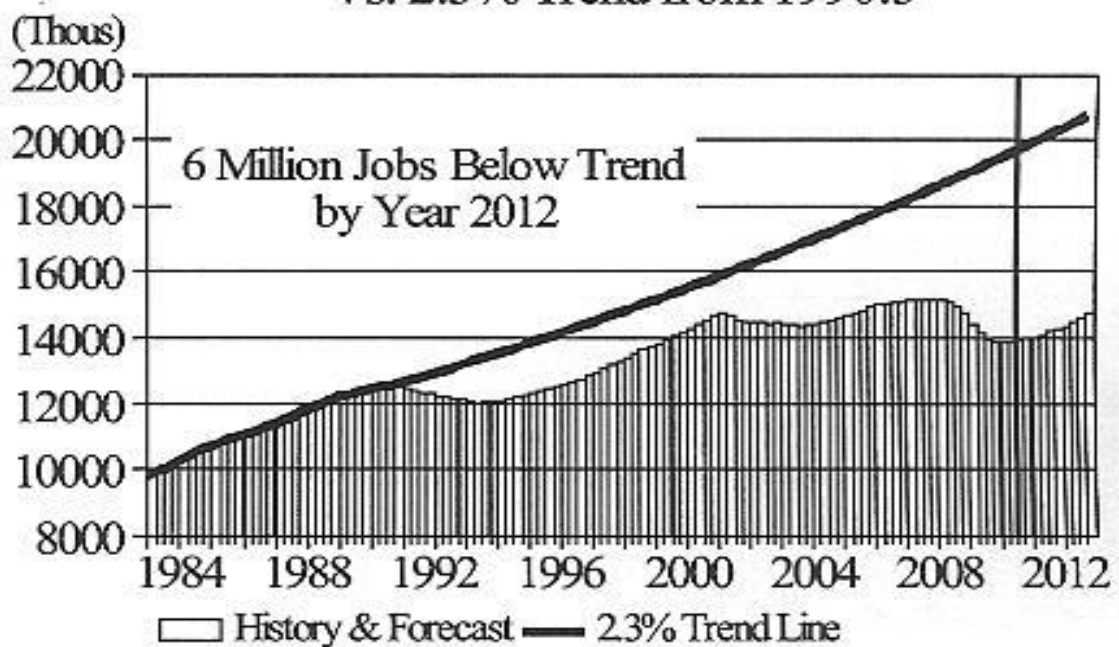
- **1910: Gov. Hiram Johnson's Direct Democracy?**
- **1978: Prop 13?**



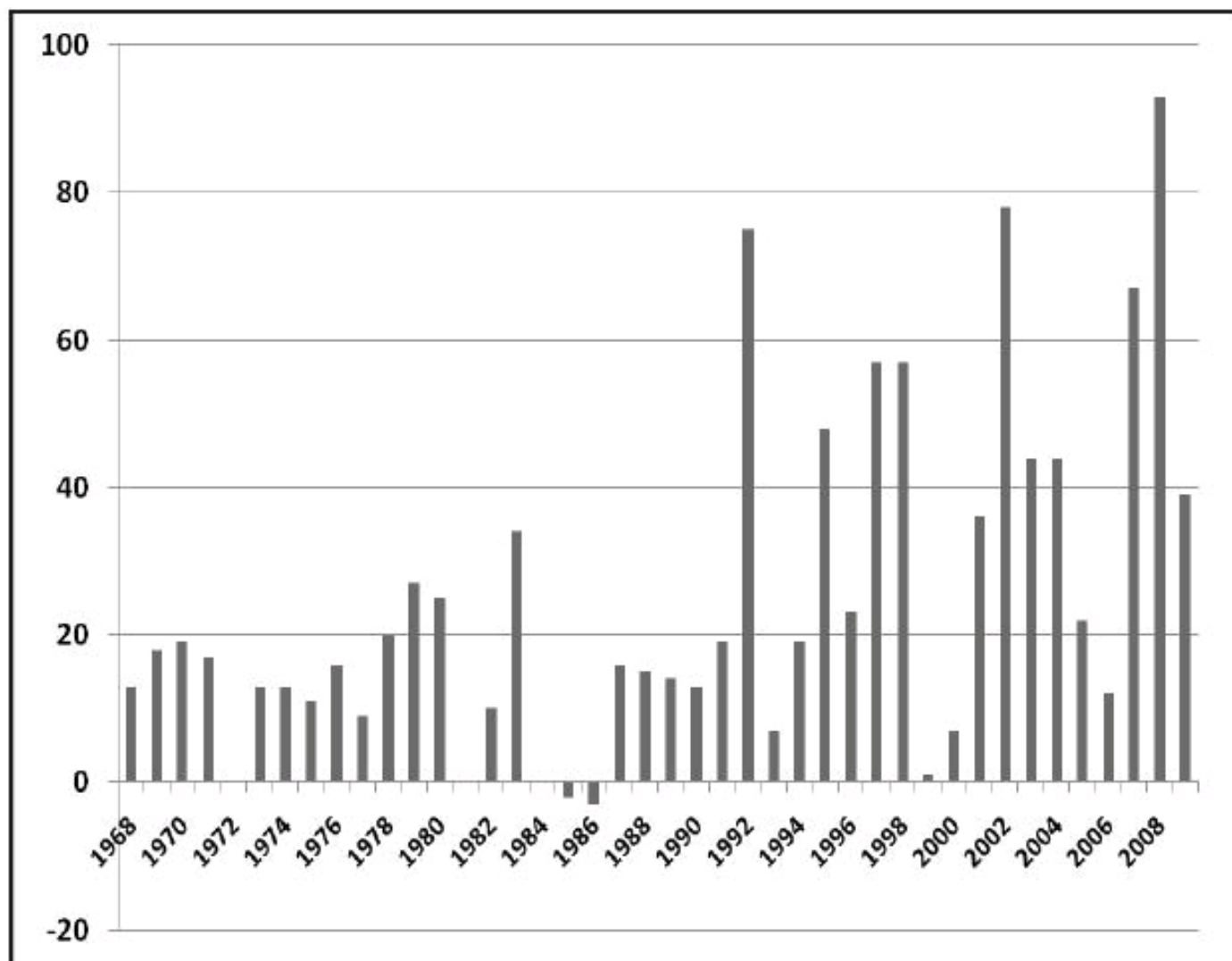
California Population Relative to US



California Nonfarm Employment History & Forecast Vs. 2.3% Trend from 1990:3



Budget Passed by Legislature: Days Beyond June 15 Constitutional Deadline (1968-2009)



More Suspects (which we can fix)



Surpluses and deficits don't have fixed common-English meanings

Stocks and flows are mixed

Budget concepts expressed without clear time period

Borrowing treated as revenue

Assets sales treated as revenue

Use of undefined terms by officials such as shortfalls, gaps, and holes



Short Fall?

Long Fall?





Short Fall?

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Paul Sakuma, Associated Press

California budget faces new \$8-billion shortfall

Plunging revenue has already put the new budget plan out of balance, the state legislative analyst says. The news may complicate the bid to have voters OK special-election measures in May.

By Jordan Rau and Evan Halper
March 14, 2009

Reporting from Sacramento -- The plan that Gov. Arnold Schwarzenegger and

GAP





CapitolAlert

THE LATEST ON CALIFORNIA POLITICS AND GOVERNMENT

March 13, 2009

Leaders react to latest budget gap

The legislative leaders who labored for weeks trying to find a way to patch the \$40 billion budget gap closed last month were quick to react today to LAO projections of a new \$8 billion hole.

Senate leader Darrell Steinberg even extended a special invitation to GOP gubernatorial hopefuls Steve Poizner and [Meg Whitman](#), who have been critical of the February budget deal.

Assembly Speaker Karen Bass, D-Los Angeles

"Given the nation's continuing economic problems since we passed the budget, it is not surprising to see the state's revenue projections continue to fall. We must keep a careful watch on revenues during these volatile times, and all of us, Democrats and Republicans alike, must be prepared to continue to make tough decisions should the May Budget Revision also show significant declines in revenue. We also have to keep in our minds the potential that if the [ballot measures](#) fail on May 19th, the budget problem grows by another \$6 billion."

Assembly Republican Leader Mike Villines, R-Clovis



Holes





Holes

The Sacramento Bee CapitolAlert



PM Alert: Another \$8 billion hole

In case you missed it today: The Legislature's budget analyst, **Mac Taylor**, declared today that the **immense package of spending cuts, new taxes and loans** aimed at closing the state's \$40 billion budget deficit will **fall short by \$8 billion** because the state's economy is continuing to falter.

The **legislative leaders who labored for weeks** trying to find a way to patch the \$40 billion budget gap were quick to react today to LAO projections of a new \$8 billion hole.

When it comes to **protecting children's interests, nobody scores 100 percent** in the California Legislature, according to the San Diego-based Children's Advocacy Institute.





Listen carefully



State Senate President Darrell Steinberg



ASSOCIATION FOR BUDGETING
& FINANCIAL MANAGEMENT



Listen carefully



State Senate President Darrell Steinberg



ASSOCIATION FOR BUDGETING
& FINANCIAL MANAGEMENT



Question



**\$100 billion
is an annual
flow. Is it really
likely that there
could have been
a \$60 billion
deficit in the
common
meaning of that
term?**

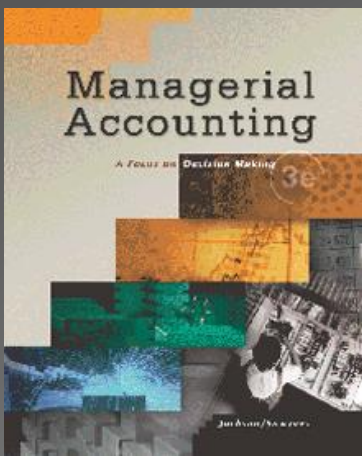


ASSOCIATION FOR BUDGETING
& FINANCIAL MANAGEMENT



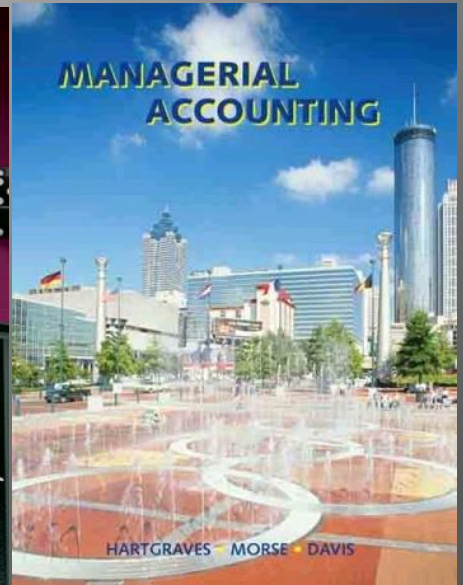
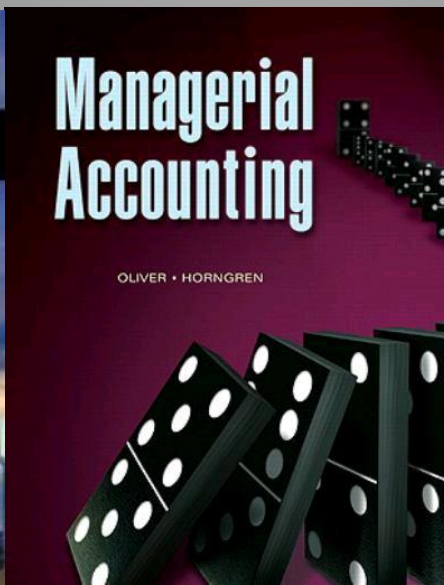
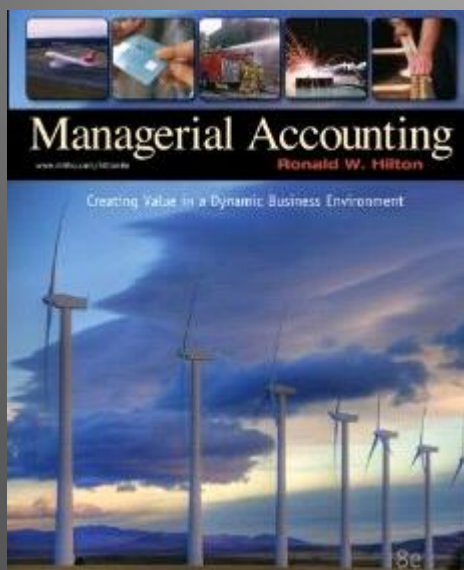
It's not just Steinberg





*If you don't know
where you are, or
where you are
going, you probably
won't get there.*

**Recommendation #1:
Managerial
Accounting**



It's the governor that needs strengthening more than the legislature.



- Recommendation #2: *Nonpartisan gubernatorial primary*

- Recommendation #3: *If on July 1 of any fiscal year, there is no enacted budget, the governor's May revise IS the budget until the legislature comes up with an alternative.*



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